



Title: Title I, Payroll/Personnel Manual
Chapter: 28, Section 2, Tax Formulas (TAXES)
Bulletin: TAXES 05-32, Federal Income Tax Withholding and Earned Income Credit (EIC)
Date: December 22, 2005
To: Holders of TAXES
Personnel User Groups
Agency Personnel Offices

This bulletin provides information concerning: (1) Federal income tax withholding formula changes, and (2) changes to the Earned Income Credit (EIC) for Calendar Year (CY) 2006.

Federal Income Tax Withholding

Effective January 1, 2006, the Federal income tax withholding tax formula will change. The Single or Head of Household and Married withholding tables will change and the exemption allowance will increase from \$3,200 to \$3,300.

Beginning with salary payments for Pay Period 25, Federal income tax will automatically be withheld in accordance with the new formula. No action on the part of the employee or the personnel office is necessary.

Earned Income Credit (EIC)

Effective January 1, 2006, NFC will change the maximum limit on year-to-date earnings for EIC payments from \$31,030 to \$32,001 for Single filers, and from \$33,030 to \$34,001 for Married filers.

Inquiries

To view the updated tax formula or updated EIC payment formula, go to the National Finance Center's (NFC) Home Page (www.nfc.usda.gov) and click **Pubs & Forms**. Then on the Pubs & Forms page left-hand menu, click **Tax Formulas** and select **Federal** from the map provided. Changes to the tax formula are identified by "►◄".

For questions about NFC processing, contact the Payroll Operations Branch at **504-255-4630**. Please refer questions about system access and other system-related issues to Customer Support at **504-255-5230** or via e-mail at customer.support@usda.gov.

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Federal Income Tax Withholding Formula

Withholding Formula ►(Effective Pay Period 25, 2005)◄

1. Subtract the nontaxable biweekly Thrift Savings Plan contribution from the gross biweekly wages.
2. Subtract the nontaxable biweekly Federal Health Benefits Plan payment from the amount computed in step 1.
3. Add the taxable biweekly fringe benefits (taxable life insurance, etc.) to the amount computed in step 2 to obtain the adjusted gross biweekly wages.
4. Multiply the adjusted gross biweekly wages by 26 to obtain the annual wages.
5. Determine the exemption allowance by applying the following guideline. Subtract this amount from the annual wages to obtain the taxable income.

Exemption Allowance = ►\$3,300◄ x Number of Exemptions

6. Apply the taxable income computed in step 5 to the following table to determine the Federal income tax withholding.

Tax Withholding Table
Single or Head of Household

If the Amount of Taxable Income Is:		The Amount of Federal Income Tax Withholding Should Be:			
Not more than \$2,650		\$0			
Over:	But Not Over:	Of Excess Over:			
\$ 2,650.00	\$ ►10,000.00	\$ 0	plus	10%	\$ 2,650.00
10,000.00	32,240.00	735.00	plus	15%	10,000.00
32,240.00	73,250.00	4,071.00	plus	25%	32,240.00
73,250.00	156,650.00	14,323.50	plus	28%	73,250.00
156,650.00	338,400.00	37,675.50	plus	33%	156,650.00
338,400.00	and over	97,653.00	plus	35%	338,400.00◄

Married

If the Amount of Taxable Income Is:		The Amount of Federal Income Tax Withholding Should Be:			
Not more than \$8,000		\$0			
Over:	But Not Over:	Of Excess Over:			
\$ 8,000.00	\$ ►22,900.00	\$ 0	plus	10%	\$ 8,000.00
22,900.00	68,040.00	1,490.00	plus	15%	22,900.00
68,040.00	126,900.00	8,261.00	plus	25%	68,040.00
126,900.00	195,450.00	22,976.00	plus	28%	126,900.00
195,450.00	343,550.00	42,170.00	plus	33%	195,450.00
343,550.00	and over	91,043.00	plus	35%	343,550.00◄

7. Divide the annual Federal income tax withholding by 26 to obtain the biweekly Federal income tax withholding.

Earned Income Credit (EIC) Advance Payment Information

►(Effective Pay Period 25, 2005)◄

Use the following steps to calculate the EIC advance payment. **Note:** Once the employee's year-to-date annual taxable wages paid reach ►\$32,001◄ or more for **single, head of household, or widow(er)** filers or ►\$34,001◄ or more for **married** filers, the EIC advance payment is \$0.00.

1. Subtract the nontaxable biweekly Thrift Savings Plan contribution from the gross biweekly wages.
2. Subtract the nontaxable biweekly Federal Health Benefit Plan payment(s) (includes flexible spending account - health care and dependent care deductions) from the amount computed in step 1.
3. Add the taxable biweekly fringe benefits (taxable life insurance, etc.) to the amount computed in step 2 to obtain the adjusted gross biweekly wages.
4. Multiply the adjusted gross biweekly wages by 26 to obtain the annual taxable wages.
5. If the employee (**single, head of household, or qualifying widow(er)**) is filing for EIC advance payment, apply the annual taxable wages to the following table:

If the Amount of Annual Wages Is:		The Amount of EIC Advance Payment Should Be:			
Over:	But Not Over:	Of Excess Over:			
\$ 0	\$ ►8,080.00	\$ 0	plus	20.400%	\$ 0
8,080.00	14,810.00	1,648.00			
14,810.00	31,998.15	1,648.00	less	9.588%	14,810.00
31,998.15◄	and over	0			

6. If the **married employee (not spouse)** is filing for EIC advance payment, apply the annual taxable wages to the following table:

If the Amount of Annual Wages Is:		The Amount of EIC Advance Payment Should Be:			
Over:	But Not Over:	Of Excess Over:			
\$ 0	\$ ►8,080.00	\$ 0	plus	20.400%	\$ 0
8,080.00	16,810.00	1,648.0			
16,810.00	33,998.15	1,648.0	less	9.588%	16,810.00
33,998.15◄	and over	0			

7. If the **married employee and spouse** are filing for EIC advance payment, apply the annual taxable wages to the following table:

If the Amount of Annual Wages Is:		The Amount of EIC Advance Payment Should Be:			
Over:	But Not Over:	Of Excess Over:			
\$ 0	\$ ►4,040.00	\$ 0	plus	20.400%	\$ 0
4,040.00	8,405.00	824.00			
8,405.00	16,999.07	824.00	less	9.588%	8,405.00
16,999.07◄	and over	0			

8. Divide the annual EIC advance payment amount by 26 to obtain the biweekly EIC advance payment amount.